By email to: ukfrs@frc.org.uk
Jenny Carter
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

30 September 2020

FRED 74: Interest rate benchmark reform (phase 2)

Dear Madam,

We welcome the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on FRED 74 "Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, Interest rate benchmark reform (phase 2)".

Overall we are very supportive of the proposed amendments. In our view, the ED addresses the key issues we expect to arise, in particular avoiding widespread modification gain / loss calculations on financial instruments measured at amortised cost and disruption to hedge accounting. However we do have some suggestions which are detailed in the Appendix to this letter in our responses to your specific questions.

If you have any questions or would like to discuss any of the comments we have made in this letter, please contact Jessica Taurae on 07740 166 459.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Question 1
Do you agree with the proposed amendments to FRS 102? If not, why not?

We generally agree with the proposed amendments, however we have the following specific comments:

1. The draft amendments were published in May 2020, ahead of the IASBs finalisation of 'Interest Rate Benchmark reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' in August 2020. As such, the draft amendments to FRS 102 as currently written do not reflect changes made by the IASB in finalising their amendments. We therefore strongly recommend that the FRC conform all wording in the draft amendment to FRS 102 to the relevant updated wording as published in the final IASB amendment, with the exception of point 2 below. We consider that this alignment of the accounting frameworks will be beneficial to preparers in avoiding the need to consider and conclude on the impact (if any) of differences to the equivalent IFRS text.

2. The draft amendments currently do not provide a specified time frame by when updates to hedge documentation should be made, whereas the final IFRS amendments require that updates to hedge documentation be made by the end of the reporting period in which the relevant change is made to the hedged risk, hedged item or hedging instrument. We consider there is a risk of FRS 102 preparers overlooking the need to make hedge documentation changes within such a time frame. Therefore, consistent with the approach taken to documenting hedges when FRS 102 was first introduced, we recommend that, if a time frame is specified, updates should be made by the date the financial statements are authorised for issue, rather than the end of the reporting period, in order to give preparers suitable time.

3. Paragraph 12.25O of the draft amendments requires that, when there is a change in the basis for determining the cash flows of a financial asset or financial liability that was previously the hedged item in a now discontinued hedge relationship, any amount accumulated in the cash flow hedge reserve is "remeasured" using the alternative benchmark rate. The use of the word "remeasured" appears to be an intentional difference from the wording used in both the final IFRS amendment and previously in the IASB ED/2020/1, which instead requires that these amounts are "deemed to be" based on the alternative benchmark rate, with no mention of remeasurement. We recommend that this be amended to state that the amount accumulated in the cash flow hedge reserve is "deemed to be" based on the alternative benchmark rate. This will provide consistency with the IFRS amendments and also avoid unnecessary complexity for preparers that may arise from remeasuring these amounts, given the lack of guidance on how this should be done.

Question 2
In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

We strongly agree that the benefits of these amendments will outweigh any associated costs.